

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
-----181117Z 105965 /12
R 181042Z MAR 77 ZFF4
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 2886

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 1513

NODIS

E.O. 11652: GDS
TAGS: ECON, TW
SUBJECT: BUSINESS AND ECONOMIC ASPECTS OF NORMALIZATION

1. THE IMPORTANCE OF TRADE AND FOREIGN INVESTMENT TO THE PRESENT AND FUTURE STABILITY AND VIABILITY OF THE REPUBLIC OF CHINA/TAIWAN IS WELL KNOWN, AS IS THE SUBSTANTIAL PRIVATE AMERICAN AND U.S. GOVERNMENT ECONOMIC INVOLVEMENT IN TAIWAN'S ECONOMY. FOR THIS REASON THE ANTICIPATED EVENTUAL RUPTURE IN US/ROC DIPLOMATIC RELATIONS MUST BE ACCOMPANIED, IN MY OPINION, BY EFFECTIVE AND COMPREHENSIVE MEASURES FOR THE REORDERING AND CONTINUATION OF US-TAIWAN COMMERCIAL AND FINANCIAL CONNECTIONS IF SERIOUS DESTABILIZATION ON TAIWAN IS TO BE AVOIDED.

2. IN THE YEARS SINCE THE SHANGHAI COMMUNIQUE WAS ISSUED, PRIVATE AND PUBLIC DECISIONS AND ACTIONS OF AMERICANS AFFECTING THE ROC IN THE ECONOMIC FIELD HAVE OFTEN BEEN IN CONTRAST TO U.S. DECISIONS AND ACTIONS IN THE POLITICAL AND MILITARY FIELDS. TRADE WITH TAIWAN HAS CONTINUED TO INCREASE RAPIDLY TO THE POINT THAT, IN 1976, TAIWAN WAS OUR TWELFTH LARGEST TRADING PARTNER. TO FACILITATE U.S. EXPORTS TO TAIWAN THERE WAS ESTABLISHED IN 1974 A TRADE CENTER. U.S. PRIVATE INVESTMENT IN TAIWAN, RELATIVELY MODEST A DECADE AGO, NOW AMOUNTS TO APPROXIMATELY HALF A BILLION DOLLARS. IN TAIWAN THE EXPORT-
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IMPORT BANK HAS ONE OF ITS LARGEST EXPOSURES IN THE ENTIRE WORLD AND MOST OF THESE LOANS AND GUARANTEES HAVE BEEN MADE IN THE PAST FIVE YEARS.

3. THIS MIGHT APPEAR TO BE AN ASTONISHING AND EVEN DANGEROUS KIND OF SCHIZOPHRENIA, GIVEN OUR APPARENT INTENTION EVENTUALLY TO TERMINATE OUR DIPLOMATIC RELATIONS WITH THE ROC. ON THE

OTHER HAND, IT IS QUITE CONSISTENT WITH OUR OBJECTIVE THAT FOLLOWING NORMALIZATION A DE FACTO INDEPENDENT, VIABLE AND PROSPEROUS POLITICAL ENTITY CONTINUE TO EXIST ON TAIWAN (DESPITE THE LOSS OF DIPLOMATIC RELATIONS WITH ALL MAJOR NATIONS IN THE WORLD), UNTIL SUCH TIME AS IT AND THE PRC FIND A PEACEFUL MEANS OF RESOLVING THEIR QUARREL. IN OTHER WORDS, WE BELIEVE THAT THE INTERNAL DISCONTENT, UNREST, AGITATION AND POLITICAL EXTREMISM WHICH COULD GROW OUT OF UNEMPLOYMENT, FALLING LIVING STANDARDS, BUSINESS FAILURES, FARMERS WITHOUT MARKETS, MOUNTING FOREIGN EXCHANGE DEFICITS, FLIGHT OF CAPITAL, EMIGRATION, ETC., (COMPOUNDED BY THE PROBABLE CONSEQUENT DRASTIC REDUCTIONS OF TRADE AND INVESTMENT RELATIONS BY JAPAN AND OTHER COUNTRIES, WOULD RISK PRECIPITATING INTERNAL CRISES AND CONFRONTATIONS ON TAIWAN AND EXTREME POLITICAL ADVENTURES WHICH THE UNITED STATES WOULD FIND CONTRARY TO ITS INTERESTS. THE ENSUING CRISES COULD JEOPARDIZE OUR EFFORTS TO IMPROVE OUR RELATIONS WITH THE PRC, TO MAINTAIN CONFIDENCE IN THE UNITED STATES AMONG OUR EAST ASIAN FRIENDS, AND TO RETAIN THE SUPPORT OF THE U.S. BUSINESS COMMUNITY, SPECIFICALLY, AND THE U.S. PUBLIC IN GENERAL FOR U.S. FOREIGN POLICY.

4. FOR ALL THESE REASONS IN ANTICIPATING NORMALIZATION WE HAVE STRESSED AND THE DEPARTMENT HAS GIVEN CONSIDERABLE ATTENTION TO DEVISING PROVISIONS AND ACTIONS IN THE ECONOMIC FIELD, SOME OR ALL OF WHICH MUST ACCOMPANY THE TERMINATION OF OUR DIPLOMATIC RELATIONS WITH THE REPUBLIC OF CHINA. THESE INCLUDE THE CONTINUATION OF TAIWAN'S MOST-FAVORED-NATION STATUS; THE PROVISION OF NUCLEAR FUEL FOR AT LEAST THE SIX NUCLEAR REACTORS NOW UNDER CONSTRUCTION OR ALREADY CONTRACTED FOR; A TAIWAN-EXIM-CONFIDENTIAL

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BANK RELATIONSHIP (WHETHER OR NOT NEW CREDITS WOULD BE EXTENDED); ACCESS TO MODERN TELECOMMUNICATIONS SYSTEMS; RECIPROCAL CONSULAR ARRANGEMENTS FOR VISAS, ETC.; COMMERCIAL AIR RECIPROCAL RIGHTS; AND A NUMBER OF OTHER PROVISIONS. SOME OF THESE MATTERS CAN BE TAKEN CARE OF EASILY BY EXECUTIVE BRANCH ACTION WHEREAS SOME OF THEM WILL REQUIRE A DEGREE OF CONGRESSIONAL ACQUIESCENCE, AT LEAST. SOME OF THEM WILL HAVE TO BE WORKED OUT WITH THE GOVERNMENT OF THE REPUBLIC OF CHINA, HOPEFULLY BEFORE DIPLOMATIC RELATIONS ARE SEVERED. FORTUNATELY THERE DO NOT APPEAR TO BE MANY WHICH WILL REQUIRE ANYTHING MORE THAN THE TACIT ACQUIESCENCE OF THE PRC.

5. IN ADDITION TO THESE PROBLEMS FOR THE FUTURE, THERE IS TODAY A SERIOUS DILEMMA IN THE ECONOMIC/COMMERCIAL FIELD WHICH WE FACE VIRTUALLY DAILY IN TAIPEI AND WHICH UNDOUBTEDLY ARISES FREQUENTLY ALSO IN WASHINGTON. TO PUT IT IN ITS SIMPLEST TERMS: WHAT DO I SAY TO THE AMERICAN BUSINESSMEN WHO CALL ON ME SEVERAL TIMES EACH WEEK ASKING FOR MY ADVICE ABOUT THE WISDOM OF THEIR MAKING BUSINESS COMMITMENTS IN TAIWAN?

OBVIOUSLY THEY ARE NOT ASKING FOR MY ADVICE ON THE PROFIT-
ABILITY, IN A LIMITED BUSINESS SENSE, OF THIS OR THAT VENTURE
BUT RATHER THEY WANT TO KNOW WHETHER OR NOT THEY CAN DEPEND ON
A CONTINUATION OF SOMETHING LIKE THE PRESENT RELATIONS, IN THE
ECONOMIC FIELD, BETWEEN THE UNITED STATES AND THE ROC FOR
ENOUGH YEARS AHEAD TO ASSURE A SATISFACTORY RETURN ON THEIR
INVESTMENT. IN OTHER WORDS, WHEN IS NORMALIZATION GOING TO
TAKE PLACE AND, IF IT COMES SOON IN RELATION TO THE TIMING OF
THEIR EXPECTED RETURNS, WILL IT SO CHANGE THE RULES OF THE
GAME THAT WHAT WAS JUDGED TO BE A PROFITABLE VENTURE UNDER
PRESENT GROUND RULES MAY CEASE TO BE SO?

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
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FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 2887

C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 1513

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6. IN RESPONDING TO BUSINESSMEN I OBVIOUSLY MAKE NO EFFORT
TO MAKE JUDGMENTS ON ANY SPECIFIC VENTURE. I DO MAKE CLEAR
THAT THE SHANGHAI COMMUNIQUE IS U.S. GOVERNMENT POLICY AND
THAT NORMALIZATION IS EXPECTED TO BE CARRIED THROUGH SOMEWHERE
DOWN THE ROAD ALTHOUGH THE TIMING IS NOT PRESENTLY KNOWN.
I ADD THAT THE U.S. HAS SAID AND I BELIEVE IT WILL HANDLE
THE NORMALIZATION PROCESS IN A RESPONSIBLE FASHION. OUR
ACTION WILL BE TAKEN IN SUCH A WAY AS TO AVOID UNDERMINING
THE CONTINUED SUCCESSFUL FUNCTIONING OF THE ECONOMY OF TAIWAN
MORE OR LESS AS IT FUNCTIONS TODAY AND TO AVOID SERIOUSLY
DISTURBING THE COMMERCIAL AND FINANCIAL LINKS BETWEEN TAIWAN
AND THE UNITED STATES. I HAVE SAID THAT MY EMBASSY IS AWARE
AS IS THE U.S. GOVERNMENT IN WASHINGTON OF THE ECONOMIC IMPLI-
CATIONS OF NORMALIZATION AND I BELIEVE THAT THE U.S. GOVERN-
MENT INTENDS TO FIND SATISFACTORY IF NOT PERFECT SUBSTITUTE
ARRANGEMENTS, SUCH AS WILL BE NECESSARY. I HAVE SPECULATED ON
OCCASION THAT AT THE TIME AND SOON AFTER NORMALIZATION THERE
MAY HAVE TO BE ANTICIPATED A PERIOD OF REDUCED CONFIDENCE
WHICH COULD HAVE AN IMPACT ON THE BUSINESS SCENE BUT THAT I

WOULD EXPECT THIS TO PASS, ASSUMING AS I DO, THAT THE MODALITIES OF NORMALIZATION IN THE ECONOMIC FIELD ARE EFFECTIVE ONES.

7. THERE IS A FURTHER AND SPECIAL PROBLEM THAT ARISES WITH THE RESIDENT AMERICAN BUSINESS COMMUNITY AND THE AMERICAN CHAMBER OF COMMERCE. MOST OF THESE BUSINESS REPRESENTATIVES
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(WITH PERHAPS THE EXCEPTION OF THOSE COMPANIES WHO ARE ALSO INTERESTED IN TRADE WITH THE PRC) ARE MORE OR LESS VEHEMENT OPPONENTS OF THE SHANGHAI COMMUNIQUE AND THE POLICY OF NORMALIZATION. I HAVE NOT FELT ADEQUATELY EQUIPPED TO DEBATE THE ISSUE WITH THOSE BUSINESSMEN EXCEPT IN QUITE GENERAL TERMS BUT I HAVE SOUGHT TO GIVE THEM AS MUCH REASSURANCE AS POSSIBLE THAT IT IS OUR INTENTION THAT NORMALIZATION WILL RAISE FOR THEM THE FEWEST POSSIBLE PROBLEMS IN THEIR CONTINUING CONDUCT OF BUSINESS HERE.

8. THE DEPARTMENT'S COMMENTS ARE INVITED WITH REGARD TO THE FOREGOING, AND IN PARTICULAR WITH REGARD TO WHAT CAN AND SHOULD BE SAID TO BOTH VISITING AND RESIDENT REPRESENTATIVES OF AMERICAN BUSINESS. IT WOULD ALSO BE HELPFUL TO HAVE CONFIRMATION, OR QUALIFICATION, THAT IT IS U.S. POLICY TO ENCOURAGE THE CONTINUATION, NOW AND AFTER NORMALIZATION, OF HEALTHY COMMERCIAL AND FINANCIAL CONNECTIONS BETWEEN THE U.S. AND TAIWAN.

9. DEPARTMENT MAY WISH TO PASS TO MANILA, SEOUL, TOKYO, CINCPAC (FOR POLAD), USLO PEKING AND HONG KONG.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DIPLOMATIC RELATIONS INTERRUPTION, FOREIGN POLICY POSITION, FOREIGN INVESTMENTS, ECONOMIC PROGRAMS, CAT-B
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TAIPEI01513
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: P850106-1849, N770002-0100
Format: TEL
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770343/aaaablpp.tel
Line Count: 204
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 32a45cb5-c288-dd11-92da-001cc4696bcc
Office: ACTION NODS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3061122
Secure: OPEN
Status: NATIVE
Subject: BUSINESS AND ECONOMIC ASPECTS OF NORMALIZATION
TAGS: PFOR, ECON, EINV, PDIP, US, TW
To: STATE MANILA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/32a45cb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009